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STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
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(P O. BOX 1799, SACRAMENTO, CALIFORNIA 95808)
(916) 445-4982

RECEIVED
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G. A. LEGAL

August 19, 1985

No. 85/85

TO COUNTY ASSESSORS:

TRACKING OWNERSHIP INTERESTS

Recently, we have received some inquiries regarding the necessity of tracking undivided ownership interests in real property. Pursuant to Article XIII A, the value of real property must be frozen (except for an inflation factor not to exceed two percent) unless there is a change in ownership. Of course, completion of new construction also requires revaluation; however, this letter is only concerned with the change in ownership aspect. It is the requirement that values be frozen for property remaining in the same ownership that brings about the necessity of tracking.

For example, assume that two people, person A and person B, acquire a piece of real property as equal co-owners and the new base-year value is $100,000 (i.e., $50,000 for each undivided one-half interest). Three years later, person B transfers his interest to person C. The market value of the interest at the time of transfer is $75,000. The property, at this point, has a split base-year value. The base-year value of person A's property is $50,000 (which is one-half of the $100,000 when the original base-year value was created), and the base-year value of person C's interest is $75,000. The total value showing on the roll would be $125,000. (This letter will, for the sake of simplicity, ignore factoring).

Two years later, person C transfers his interest to person D. The value of the interest at the date of transfer is $90,000. It is at this point that "tracking" becomes critical. The base-year value of person A's interest is still $50,000. The total value showing on the roll should be $140,000 (i.e., $50,000 + $90,000). If the interests are not "tracked" the total value showing on the roll would be $152,500 which is $90,000 (new base-year value of the interest transferred) plus $62,500 (one-half of the roll value rather than base-year value). As this demonstrates, failure to track split base-year interests separately leads to inappropriate values. To enroll $152,500 rather than $140,000 has the effect of either 1) overvaluing person D's interest at $102,500 or 2) revaluing person A's interest at $62,500. Neither of the foregoing occurrences are within legal requirements.

The need for tracking has been futher amplified since the implementation of supplemental assessments. When person B transferred his interest to person C a supplemental assessment in the amount of $25,000 would be in order (assuming the transfer occurred on or after July 1, 1983). Further, when person C transferred his interest to person D another supplement assessment would be necessary, and it should be in the amount of $15,000 (e.g., $90,000 - $75,000). Failure to properly process the supplemental assessment could result in supplemental assessment in the amount of $27,500 (e.g., $90,000 - $62,500) or perhaps some other inappropriate amount.

Although it is difficult administratively, it is more important to track undivided interests now than it has ever been in the past.

While we feel that tracking is clearly required, we do not feel that separate assessment of these interests is required.

If you have any questions regarding this subject, please contact our Technical Services Section at (916) 445-4982.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

VW:wpc
AL-04D-2427A

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
1020 N STREET, SACRAMENTO, CALIFORNIA
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NO. 86/04

January 8, 1986

TO COUNTY ASSESSORS:

APPLYING PROPOSITION 8 TO FRACTIONAL INTERESTS IN REAL PROPERTY

In a recent advisory letter (85/25, dated August 19, 1985) we stressed the importance of tracking multiple base year values of undivided interests in real property. In this letter, we will present our position on how Proposition 8--that is, Article XIII A, Section 2(b) of the Constitution, which allows reductions in the taxable value of real property--should be applied to real property which has more than one base year because of transfers of fractional interests.

It is our opinion that Section 50, Revenue and Taxation Code, governs the value to be placed on the roll for the first lien date following a change in ownership of an undivided interest in real property; and that, for succeeding lien dates, Section 51, Revenue and Taxation Code, is controlling. The following example will illustrate our position.

A and B own real property as equal co-owners. A's base year value for the 1985-86 tax roll was $50,000 and B's base year value was $75,000, for a total enrolled value of $125,000. In November of 1985, B sells his one-half interest to C for $90,000. Assuming that this is representative of market value, the value of the entire property would then be $180,000. As of the date of transfer of B's interest, the new base year value of the property is $140,000 (A's $50,000 plus C's $90,000). The supplemental assessment to the 1985-86 roll is $15,000 ($140,000 - $125,000).

As of March 1, 1986, the fair market value of the entire property has declined from $180,000 to $160,000.

Q. What value should be placed on the 1986-87 tax roll?

A. $131,000 (the factored base year value of A's interest--$50,000 x 1.02, plus the fair market value on the lien date of C's interest--$80,000).

Q. Assuming that the decline in value was being measured as of March 1, 1987, what would be the appropriate taxable value to be enrolled on the 1987-88 Section 601 roll?

A. $142,800 ($140,000 x 1.02). The current market value of the entire property (assume $160,000, the same as on March 1, 1986) is greater than its factored base year value, so factored base year value must be enrolled.

Section 50 requires that valuation on the first lien date following a change in ownership of real property must be accomplished by treating each fractional interest separately to determine whether the base year value or current market value is the lower amount. Section 51, which in its subdivision (e) provides that this comparison shall be based upon the value of the entire appraisal unit as it is bought and sold in the market, controls the taxable value for all lien dates following the lien date on which the base year value is first enrolled.

In summary, treat ownership interests separately when valuing for the first lien date enrollment; thereafter, combine ownership interests as a total unit. Please call our Technical Services Unit at (916) 445-4982 if you have any questions about the tracking of undivided interests.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

VW:wpc
AL-04D-2427A